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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

DOCKETED

AUG 06 2009

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF
VALENCIA WATER COMPANY – TOWN
DIVISION AND VALENCIA WATER COMPANY
– GREATER BUCKEYE DIVISION, FOR
AUTHORITY TO INCUR LONG-TERM DEBT
THROUGH THE WATER INFRASTRUCTURE
FINANCE AUTHORITY OF ARIZONA.

DOCKET NO. W-01212A-09-0189

DECISION NO. 71241ORDER

Open Meeting
July 28 and 29, 2009
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission (“Commission”) finds, concludes, and orders that:

* * * * *

FINDINGS OF FACT

1. On April 20, 2009, Valencia Water Company – Town Division and Valencia Water Company – Greater Buckeye Division (“Valencia” or “Company”) filed an application with the Commission for authorization to execute a loan agreement with the Water Infrastructure Finance Authority of Arizona (“WIFA”).¹

2. Valencia is a for-profit Class “B” Arizona public service corporation that provides water service to approximately 6,000 customers in and around the Town of Buckeye, in Maricopa County, Arizona.

3. On May 18, 2009, the Company filed an affidavit of publication verifying that it published notice of its application on May 12, 2009, in the *West Valley View*, a publication of general

¹ This application was filed to take advantage of federal “stimulus” funds provided under the American Recovery and Reinvestment Act of 2009 (“ARRA”), the distribution of which is being administered by WIFA for capital projects undertaken by water and wastewater utilities in Arizona.

1 circulation in Avondale, Buckeye, Goodyear, Litchfield Park and Tolleson, Arizona.

2 4. On June 26, 2009, the Commission's Utilities Division ("Staff") issued a Staff Report
3 recommending approval of the application subject to certain conditions.

4 5. On February 17, 2009, the ARRA went into effect. WIFA's *Supplemental 2009 ARRA*
5 *Intended Use Plan* shows that the ARRA authorizes WIFA to provide an additional subsidy on loans,
6 which can include forgivable principal and/or additional interest rate subsidies. In addition, the
7 *Supplemental 2009 ARRA Intended Use Plan* provides that projects that receive ARRA funds would
8 need to be capable of moving forward rapidly and, hence, expedited regulatory consideration is
9 appropriate.

10 6. In its application, Valencia requested authority to obtain a WIFA loan in the amount of
11 \$2,562,500 to finance installation of supervisory control and data acquisition ("SCADA") equipment
12 for both systems, and for installation of well equipment at the existing Evergreen Well No. 2 site.

13 7. According to the Staff Engineering Report, the Company's Town Division operates
14 one public water system that has 9 active wells with a total pumping capacity of more than 3,700
15 gallons per minute ("GPM"), 6 arsenic treatment systems, 12 storage tanks with total capacity of
16 2,645,000 gallons, hydro-pneumatic systems, and a distribution system that serves approximately
17 5,438 connections. The Greater Buckeye Division operates four public water systems that provide
18 service to approximately 653 connections.

19 8. As described in the Staff Engineering Report, SCADA systems are designed to allow
20 for centralized automated remote operational control of the water systems. Staff indicates that
21 SCADA systems can reduce power usage, labor costs, data collection costs, and travel requirements.
22 Valencia's estimated costs for the SCADA project, as set forth in the Staff Report, are as follows:

Project Description	Estimated Cost (\$)
Planning	
Evaluation of Needed Components	\$20,000.00
Due Diligence of Equipment	30,000.00
Radio & Communications Planning	25,000.00
Design & Engineering	
Electrical Design	45,000.00
Development of SCADA Standards	500,000.00

Equipment/Materials	
The Greater Buckeye Division Sites	
Bulfer/Primorse (PWS# 07-114)	50,413.19
Sonoran Ridge (PWS# 07-732)	25,000.00
Sun Valley Ranches (PWS# 07-195)	99,213.41
The Town Division (PWS# 07-078)	
Miller Inline BPS	56,093.04
Lower Buckeye & Apache	88,656.23
Bales	100,000.00
Westpark	80,624.13
Construction & Installation	
The Greater Buckeye Division Sites	
Bulfer/Primrose (PWS# -07-114)	64,162.24
Sonoran Ridge (PWS# 07-732)	25,000.00
Sun Valley Ranches (PWS# 07-195)	126,271.62
The Town Division Sites (PWS# 07-078)	
Miller Inline BPS	71,391.14
Lower Buckeye & Apache	112,835.20
Bales	100,000.00
Westpark	142,839.80
Construction Inspection	40,000.00
Site Project Management	40,000.00
Administration	20,000.00
TOTAL	\$1,862,500.00

9. Staff states that although the SCADA project commenced in June 2008, and the engineering and planning phase has been completed, the Company recently placed the project on hold due to current economic conditions. However, if the financing is approved, Valencia expects that the SCADA project would be completed within 10 months from receipt of the WIFA financing.

10. According to the Staff Report, five of the six arsenic treatment systems ("ATS") serving Valencia's Town Division use an adsorptive² media technology in the arsenic removal process, and the remaining ATS (Sonoran Vista) uses a coagulation/filtration³ system. The Company explained that the adsorptive media systems are significantly less efficient compared to the single coagulation/filtration system. Staff indicates that Valencia believes the addition of the Evergreen

² "Adsorption" is an "adhesion in an extremely thin layer of molecules (as of gases, solutes, or liquids) to the surfaces of solid bodies or liquids with which they are in contact." (*Merriam-Webster Online Dictionary*) "Absorption," on the other hand, is a "process in which one substance permeates another." (www.wordnetweb.princeton.edu)

³ A coagulation/filtration system employs alum and ferric coagulants to alter "the physical or chemical properties of colloidal or suspended solids, enhancing agglomeration and thus allowing these solids to settle out of [the] solution by gravity or to be removed by filtration." (*Analytical Chemistry of Arsenic in Drinking Water* (1998), Andrew Eaton, Hsiao Chiu Wang, Jack Northington—American Water Works Association Research Foundation)

Well No. 2 to the Sonoran Vista ATS will reduce the Company's reliance on the less efficient adsorptive media systems thereby resulting in production increases and lower costs. Valencia anticipates that once the Evergreen Well No. 2 becomes operational, the Sonoran Vista ATS will become the primary arsenic treatment facility and the less efficient adsorptive systems will be used for backup and peak treatment only.

11. The Staff Report sets forth Valencia's estimated costs for the Evergreen Well No. 2 project as follows:

Project Development	\$20,000.00
Project Engineering & Design	50,000.00
Equipment & Materials	277,500.00
Construction & Installation	300,000.00
Construction Inspection	32,500.00
Site Project Management	15,000.00
Administration	5,000.00
Total	\$700,000.00

12. Staff states that the well equipment project commenced in September 2008, but was put on hold due to the economic climate. However, if the financing is approved, Valencia expects that the well project could be mobilized in 30 days and completed within 6 months from receipt of the WIFA financing.

13. According to Staff, Valencia requested that the Commission authorize it to secure WIFA financing in an amount not to exceed \$2,562,500, with an anticipated 20-year amortizing loan and an interest rate of 6.0 percent per annum⁴. Due to an anticipated \$1,025,000 of forgivable principal (40 percent of the total loan) pursuant to WIFA's authority under its *Supplemental 2009 ARRA Intended Use Plan*, the Company expects repayable indebtedness of \$1,537,500.

14. According to Staff, as of December 31, 2008, the Company's capital structure consisted of 0.6 percent short-term debt, 11.9 percent long-term debt, and 87.6 percent equity.

15. Staff calculated a pro forma capital structure reflecting issuance of a \$2,562,500, 20-

⁴ On July 2, 2009, Valencia filed "Technical Comments to the Staff Report" indicating that the WIFA interest rate will be 4.2 percent rather than the 6.0 percent rate set forth in the Staff Report.

1 year amortizing loan, at an interest rate of 6.0 percent per annum, and determined that Valencia's
2 capital structure would be comprised of 0.8 percent short-term debt, 21.4 percent long-term debt and
3 77.8 percent equity.

4 16. Staff's pro forma financial analysis indicates that the Company's Debt Service
5 Coverage ("DSC") ratio would be 2.63 percent with the proposed WIFA loan. According to Staff,
6 the pro forma DSC shows that cash flow from operations is sufficient to cover all obligations,
7 including WIFA's requirement to fund a Debt Service Reserve Fund equal to 20 percent of debt
8 service.

9 17. Arizona Administrative Code ("A.A.C.") R18-15-104 requires WIFA borrowers to
10 pledge their revenue sources to repay the financial assistance. A.R.S. § 40-285 requires public
11 service corporations to obtain Commission authorization to encumber certain utility assets. Staff
12 states that the statute serves to protect captive customers from a utility's act to dispose of any of its
13 assets that are necessary for the provision of service, and thus, it serves to preempt any service
14 impairment due to disposal of assets essential for providing service. Staff states further that pledging
15 assets as security typically provides benefits to the borrower in the way of increased access to capital
16 funds or preferable interest rates, and it is often an unavoidable condition of procuring funds for small
17 or financially stressed entities.

18 18. Staff concludes that issuance of the proposed debt financing for the purposes stated in
19 the application is within the Company's corporate powers, is compatible with the public interest, is
20 consistent with sound financial practices and will not impair its ability to provide service. Staff
21 recommends authorizing Valencia to incur debt in an amount not to exceed \$2,562,500, for a period
22 of 18-to-22 years, pursuant to a loan agreement with WIFA that provides for 40 percent of the
23 principal amount to become forgiven upon compliance with the ARRA.

24 19. Staff concluded that the Company's proposed capital projects are appropriate and that
25 the cost estimates provided by Valencia are reasonable. However, Staff made no "used and useful"
26 determination of the proposed capital projects for ratemaking or rate base purposes.

27 20. Staff also concluded that issuance of the proposed debt financing, for the purposes
28 stated in the application, is within Valencia's corporate powers, is compatible with the public interest,

1 is consistent with sound financial practices, and will not impair the Company's ability to provide
2 services.

3 21. As a condition of approval, Staff also recommends that:

- 4
- 5 a. Valencia be authorized to engage in any transactions and to
6 execute any documents necessary to effectuate the authorizations
7 granted herein;
8 b. Valencia be authorized to pledge its assets in the State of Arizona
9 pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection
10 with the WIFA loan;
11 c. the authorization to incur debt granted by this Decision terminate
12 on December 31, 2012;
13 d. Valencia be required to use its best efforts and to act in good faith
14 to comply with all the requirements of the American Recovery and
15 Reinvestment Act of 2009 and all requirements of WIFA in order
16 to obtain the 40 percent of forgivable principal;
17 e. Valencia file with Docket Control as a compliance item in this
18 docket by May 31, 2010, copies of the WIFA Completion
19 Certification for the Valencia SCADA project;
20 f. Valencia file with Docket Control, as a compliance item in this
21 docket, copies of the loan documentation within 60 days of the
22 execution of any financing transaction authorized herein;
23 g. Valencia file with Docket Control as a compliance item in this
24 docket by May 31, 2010, copies of the Certificates of Approval of
25 Construction issued by ADEQ for equipping the existing
26 Evergreen Well No. 2 (ADWR Well No. 55-203650); and
27 h. the Commission take the regulatory measures it deems appropriate
28 due to any detrimental consequences to ratepayers that may result
from the Company's failure to use best efforts and act in good faith
to comply with the ARRA that results in a reduction in the amount
of the loan that would otherwise qualify as forgivable principal.

22. According to Staff, Valencia also requested authorization to use various forms of
refinancing as long as total long-term indebtedness at any time would not exceed \$2,562,500 in 2009,
or thereafter. Staff recommended that the Company's request be denied because of Staff's opinion
that blanket refinancing authorizations should be approved sparingly in order for the Commission to
retain oversight of debt issuances.

23. Staff recommendations are reasonable and should be approved.

CONCLUSIONS OF LAW

1. Valencia is a public service corporation within the meaning of Article XV of the

1 Arizona Constitution and A.R.S. §§ 40-285, 40-301, 40-302, and 40-303.

2 2. The Commission has jurisdiction over Valencia and of the subject matter of the
3 application.

4 3. Notice of the application was given in accordance with the law.

5 4. The financing as approved herein is for lawful purposes within Valencia's corporate
6 powers, is compatible with the public interest, with sound financial practices, and with the proper
7 performance by Valencia of service as a public service corporation, and will not impair Valencia's
8 ability to perform the service.

9 5. The financing approved herein is for the purposes stated in the application, is
10 reasonably necessary for those purposes and such purposes may not be reasonably chargeable to
11 operating expenses or to income.

12 6. Staff's recommendations are reasonable and should be adopted.

13 **ORDER**

14 IT IS THEREFORE ORDERED that Valencia Water Company – Town Division and
15 Valencia Water Company – Greater Buckeye Division are hereby authorized to incur long-term
16 indebtedness in an amount up to \$2,562,500 pursuant to a loan agreement with WIFA, under which
17 40 percent of the principal amount would become forgivable principal upon compliance with the
18 American Recovery and Reinvestment Act of 2009, at an interest rate not to exceed the current WIFA
19 subsidized rate at the time the loan is executed, for the purpose of funding a SCADA system and
20 improvements to the Evergreen Well No. 2, and related facilities as described in the application.

21 IT IS FURTHER ORDERED that Valencia Water Company – Town Division and Valencia
22 Water Company – Greater Buckeye Division shall use best efforts and act in good faith to comply
23 with all requirements of the American Recovery and Reinvestment Act of 2009 and all requirements
24 of WIFA in order to obtain 40 percent of the principal amount as forgivable principal.

25 IT IS FURTHER ORDERED that if Valencia Water Company – Town Division and Valencia
26 Water Company – Greater Buckeye Division fail to use best efforts and to act in good faith to comply
27 with the ARRA, resulting in a reduction of the amount of the loan that qualifies as forgivable
28 principal, the Commission shall take the regulatory measures it deems appropriate, including but not

1 limited to disallowing recovery for ratemaking purposes of the amount of the loan that would
2 otherwise have qualified as forgivable principal.

3 IT IS FURTHER ORDERED that the finance authority granted herein is expressly contingent
4 upon Valencia Water Company – Town Division and Valencia Water Company – Greater Buckeye
5 Division's use of the proceeds for the purposes stated in the application and approved herein.

6 IT IS FURTHER ORDERED that Valencia Water Company – Town Division and Valencia
7 Water Company – Greater Buckeye Division are authorized to pledge their assets in the state of
8 Arizona pursuant to A.R.S. § 40-285 and A.A.C. R18-15-104 in connection with the loan approved
9 herein.

10 IT IS FURTHER ORDERED that Valencia Water Company – Town Division and Valencia
11 Water Company – Greater Buckeye Division are authorized to engage in any transactions and to
12 execute any documents necessary to effectuate the authorizations granted.

13 IT IS FURTHER ORDERED that Valencia Water Company – Town Division and Valencia
14 Water Company – Greater Buckeye Division shall file with Docket Control, as a compliance item in
15 this docket, copies of all executed financing documents related to this authority within 60 days after
16 the date of execution.

17 IT IS FURTHER ORDERED that Valencia Water Company – Town Division and Valencia
18 Water Company – Greater Buckeye Division shall file with Docket Control, as a compliance item in
19 this docket, by May 31, 2010, copies of the Certificates of Approval of Construction issued by ADEQ
20 for equipping the existing Evergreen Well No. 2 (ADWR Well No. 55-203650).

21 IT IS FURTHER ORDERED that Valencia Water Company – Town Division and Valencia
22 Water Company – Greater Buckeye Division shall file with Docket Control as a compliance item in
23 this docket by May 31, 2010, copies of the WIFA Completion Certification for the Valencia SCADA
24 project.

25 IT IS FURTHER ORDERED that that the authorization to incur debt granted by this Decision
26 shall terminate on December 31, 2012.

27 IT IS FURTHER ORDERED that the request by Valencia Water Company – Town Division
28 and Valencia Water Company – Greater Buckeye Division for authorization to use various forms of

1 refinancing as long as total long-term indebtedness at any time would not exceed \$2,562,500 in 2009,
 2 or thereafter, is denied.

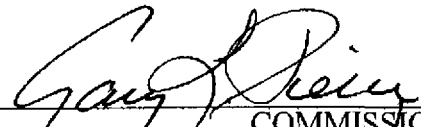
3 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not
 4 constitute or imply approval or disapproval by the Commission of any particular expenditure of the
 5 proceeds derived thereby for purposes of establishing just and reasonable rates.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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 9 

10 CHAIRMAN



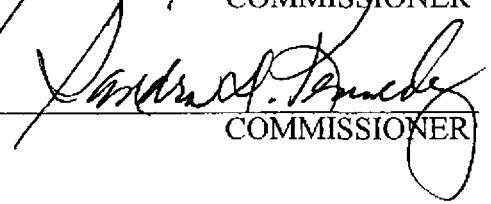
COMMISSIONER

11 

12 COMMISSIONER



COMMISSIONER



COMMISSIONER

14 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
 15 Executive Director of the Arizona Corporation Commission,
 16 have hereunto set my hand and caused the official seal of the
 17 Commission to be affixed at the Capitol, in the City of
 18 Phoenix, this 6th day of August, 2009.

19 
 20 ERNEST G. JOHNSON
 21 EXECUTIVE DIRECTOR

22 DISSENT _____

23
 24 DISSENT _____

1 SERVICE LIST FOR:

VALENCIA WATER COMPANY – TOWN DIVISION
AND VALENCIA WATER COMPANY – GREATER
BUCKEYE DIVISION

3 DOCKET NO.:

W-01212A-09-0189

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